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UNCLAS SECTION 01 OF 02 PRETORIA 001320

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SUBJECT: INDIAN CONSUL GENERAL OPTIMISTIC ABOUT GROWING ECONOMIC TIES, BUT WORRIED ABOUT SA INVESTMENT CLIMATE

REF: A. PRETORIA 00589

1B. PRETORIA 001288

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11. (SBU) SUMMARY: Indian Consul General Navdeep Suri spoke to the South African Chamber of Commerce and Industry (SACCI) on June 11 about the increase in economic ties between South Africa and India. Suri described opportunities for the two countries to increase trade and investment including the acceleration of preferential trade talks. He was positive in his long-term outlook for growth in the Indian market for South African goods, but expressed concern about the investment climate in South Africa due to the negative impact of power shortages. End Summary.

Growing Momentum in Economic Ties

12. (SBU) Indian Consul General to Johannesburg Navdeep Suri spoke to the South African Chamber of Commerce and Industry (SACCI) on June 11 about the increase in economic ties between South Africa and India. Suri noted that the two countries were making up for lost time in re-establishing economic relations since 1995 (Reftel A), effectively starting from a zero base since the end of the long-standing sanctions established during apartheid. In the first quarter of fiscal year 2007-2008 (April-June 2007), bilateral trade reached \$1.75 billion. Talks regarding a preferential trade agreement with the Southern African Customs Union (SACU) are still ongoing. Suri called for accelerated negotiations for the preferential trade agreement to boost bilateral trade volumes.

13. (U) Suri announced that his government is also promoting a "Doing Business in India" conference to encourage increased bilateral trade. The conference will take place in Johannesburg in September 2008. He also noted that many Indian companies are already present in South Africa and the Indian Government has established an India Business Forum to promote them. Thirty-seven Indian companies have already joined the Forum and there is growing interest among additional Indian companies.

Trade Balance Favors SA, But There is
Still Room for Greater SA Exports

14. (U) Suri explained that the trade balance between the two nations has always been in South Africa's favor. He noted that despite the growth in trade, India was still not one of South Africa's top-ten trade partners. Suri emphasized that South African companies have

not taken full advantage of the export opportunities to India. He outlined India's growing economic prowess and noted that unlike China it was a net importer and still derived most of its economic growth from domestic market demand. According to Suri, South African exports to India are dominated by a few products and he called for increased diversification if South African companies hope to increase their market share in India. In contrast, India exported a diverse basket of goods to South Africa.

¶15. (U) Suri said South African companies could obtain a larger share of India's infrastructure projects. Specifically, he pointed to the example of the Airports Company of South Africa (ACSA), which is currently leading the expansion project for Mumbai International Airport. Suri stated that there are at least 30 other domestic and international airports in India that need upgrading and identified Qinternational airports in India that need upgrading and identified airport infrastructure projects as an area where South African expertise could be utilized.

¶16. (SBU) Suri noted that there was a huge potential for skills transfer from India that was thwarted by South African visa policies. Suri pointed to the difficulty in obtaining South African work visas/permits for Indian IT workers as one factor that was limiting skills transfer between the two countries. He commented that it was more difficult to obtain a South African visa than a U.S. one. Indian companies have faced difficulty in both recruiting skilled personnel in South Africa and in transferring Indian personnel to South Africa.

¶17. (U) Tourism between the two countries has also shown an upward trend, but it is still below potential. Suri called for improved air and shipping connections to facilitate increased trade and tourism. The Indian Consulate's figures show a steady growth of both inbound and outbound tourists.

South Africa/India Tourism Trend

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Year	2002	2003	2004	2005
SA to India	18,238	23,873	32,148	39,234
India to SA	34,062	41,018	36,172	36,045

(Comment. The Assistant Director for India Tourism Johannesburg told Transport Officer that there has been increased demand from Indian clients for safari-based tours in South Africa in the last year. As a result, the organization is sponsoring orientation trips to South Africa for India-based tour operators. End Comment).

Power Is a Cause for Concern

¶18. (SBU) Suri said that Indian companies have been attracted to South Africa by its relatively good infrastructure (in comparison to domestic Indian infrastructure) and access to neighboring markets, but are beginning to hesitate due to concerns about the effects of power shortages. State-owned power company Eskom has not been able to guarantee a steady power supply to existing industries. Connections to new customers were suspended and have recently resumed on a case-by-case basis (Reftel B). There has been a rise in the number of Indian companies that have approached the Consulate and have expressed frustration in obtaining power for new projects or fear of a general economic downturn due to powers shortages. Suri said Indian companies were prepared to deal with the security costs associated with high crime in South Africa in the past, but the additional concern regarding the availability of power for new projects is leading Indian companies to reevaluate investment.

¶19. (SBU) COMMENT: Suri highlighted a trend in increased bilateral trade in his presentation. However, he noted that the countries were still not optimizing the potential for growth in trade, investment, and tourism. He pointed to the acceleration of preferential trade agreement negotiations, increasing air/sea

transport links, and the easing of work visa requirements as prerequisites to increased bilateral trade and investment. Power shortages, the latest and most critical obstacle to Indian foreign investment in South Africa raised by Suri, has been mentioned in the press and to the Embassy by other international investors.

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